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BEFORE THE ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission

DOCKETED

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LEA MÁRQUEZ PETERSON

Chairwoman

SANDRA D. KENNEDY

Commissioner

JUSTIN OLSON

Commissioner

ANNA TOVAR

Commissioner

JIM O'CONNOR

Commissioner

IN THE MATTER OF ESTABLISHING A  
COMMISSION POLICY FOR THE  
DEVELOPMENT AND INTEGRATION OF  
COMPETITIVE COMMUNITY SOLAR  
AND COMMUNITY ENERGY STORAGE  
PROJECTS IN ARIZONA

DOCKET NO. E-00000A-22-0103

DECISION NO. 78784

ORDER

ARIZONA PUBLIC SERVICE  
COMPANY'S COMMUNITY SOLAR  
IMPLEMENTATION PROPOSAL

Open Meeting  
November 9 and 10, 2022  
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

**Background**

1. On September 26, 2022, Arizona Public Service Company ("APS" or "Company") filed its Community Solar Program Proposal ("CSP Plan") with the Arizona Corporation Commission ("Commission") in accordance with Decision No. 78583 (May 27, 2022), (the "Decision") which required Staff and APS to organize a Community Solar ("CS") Working Group ("Working Group") to capture best practices from around the country and establish the mechanics, implementation, and operational details of an APS community solar program. The Decision also required APS to file its CSP Plan in advance of a Staff proposed order to be voted upon no later than the November 2022 Open Meeting and to be effective within six months of Commission approval of the proposal for implementation.

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2. Pursuant to the Decision, on April 29, 2022, the Commission opened Docket No. E-00000A-22-0103 to address the development and integration of competitive community solar and storage projects for Arizona.

3. The Decision required the Working Group to comprehensively examine community solar and storage design and implementation issues in crafting its plan for community solar in Arizona. Areas of Working Group discussion included an approach that touched on almost all aspects of community solar from customer eligibility, low and moderate income (“LMI”) participants, consumer protections, direct bill offsets, third party developers and subscription organizations, battery storage, project caps, renewable energy credits, customer impacts, bill rates and credits, securities regulation, rate case issues, and general community solar program models including examples where community solar programs have been implemented in other jurisdictions.

#### **COMPANY’S PROPOSAL**

##### *APS’s Proposal for Implementation of Community Solar in Arizona – CSP Plan*

4. APS’s CSP Plan contains sections detailing the program’s design, customer eligibility and technology, consumer protections, subscription credits, fees and unsubscribed power, customer enrollment and billing, and customer experiences and education. The CSP Plan addresses implementation matters including the need for a rate rider, cost-shifts and recovery, and administrative issues.

##### Program Type, Size and “Must Take” Tariff or “Request for Proposal” Process

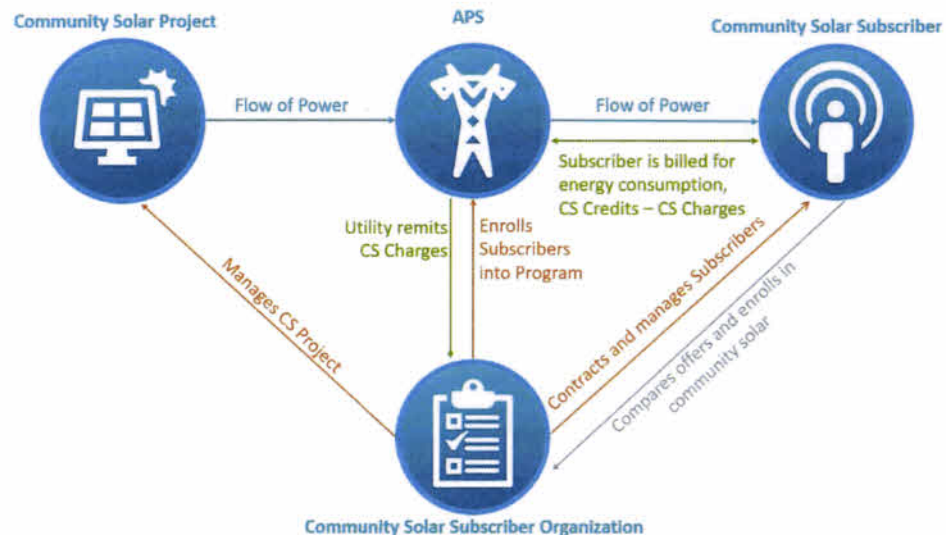
5. APS proposes to initially limit the program’s capacity to 140 MegaWatts (“MW”) which would allow for approximately 20,000 LMI residential customers to participate in community solar. APS states that by starting with a small, pilot-scale program size, APS and the Commission are able to evaluate the impacts of community solar on customers and the grid, which APS states allows for evaluation of cost shift impacts, consumer protections, and utility administrative costs (among other issues).

6. APS states that a competitive Request for Proposal (“RFP”) process instead of a “Must-Take Power” (“MTP”) model for community solar projects would best meet customer needs for several reasons including that an RFP process would maximize grid values from community



solar projects and monetize renewable energy credits (“RECs”) generated from those projects for the benefit of all customers. APS also states that projects must be curtailable, either as a resource APS owns and directly operates, or a contracted resource because without operational control, MTP from community solar projects may lead to operational/reliability challenges and reduce opportunities for APS to absorb negatively priced power and pass the associated saving to all APS customers.

#### CSP Plan’s Process for Arizona



7. Under the CSP Plan, APS would issue a competitive RFP where community solar subscriber organizations (“CSSOs”) would bid with their projects. APS proposes two options for the CSSOs. Under the first option, CSSOs enter into a power purchase agreement with APS and are responsible for the development, financing, construction, ownership, and operation of their project. The second option is for the CSSO to build the facility and transfer ownership to APS under a build-transfer agreement.

8. The next step is for the CSSO to interconnect to the APS distribution or transmission grid and send its power directly to APS. APS would accept this power “when it is needed” and incorporate it into its overall energy supply. The customer continues to receive the entirety of their power and energy from APS and never directly from a CSSO.

9. APS proposes two pathways to customer enrollment into the program. The first involves APS or the CSSO enrolling customers into its own program where APS owns a project

1 pursuant to a build-transfer community solar proposal. In the second pathway to enrollment, a CSSO  
2 would enroll customers into their project's capacity within the APS program. The CS Subscribers  
3 pay subscription fees via a consolidated billing format to the CSSO, which in turn pays down the  
4 cost of the project, and CS Subscribers get a bill credit from APS. The bill credit reduces the CS  
5 Subscriber's overall electric utility bill similar to what happens for those customers with access to  
6 rooftop or other distributed solar generation resources.

7 10. Once the CS Project is fully subscribed, APS plans to only remit community solar  
8 charges, less an administrative fee, to the CSSO.

9 11. In the event that a CSSO does not sell enough subscriptions to correspond with the  
10 full output of the CS Project, then APS plans to pay the CSSO (presuming third-party developer  
11 ownership) for the unsubscribed contracted energy.

12 12. APS proposes to recover the costs associated with the CS Credit from all customers,  
13 including non-participating customers via APS's existing Renewable Energy Standard ("RES")  
14 compliance program and the Renewable Energy Adjustment Charge ("REAC").

15 Low- and Moderate-Income Customers

16 13. APS proposes to limit participation to only LMI customers for the first year before  
17 opening it to non-LMI residential customers for any remaining capacity. Once opened to non-LMI  
18 residential customers, APS will implement a 75 percent LMI carveout for each project.

19 Consumer Protections

20 14. APS states that customer protections inherent to the RFP model provide a mechanism  
21 for the Commission to have oversight of CSSOs via the review of all materials related to contracts,  
22 terms, conditions, disclosures, marketing materials and other customer-facing documents. APS  
23 states that it will ensure that regulatory requirements that apply to APS, such as disconnect  
24 prohibitions and limitations (e.g., Arizona Administrative Code R14-2-211), are also applied to its  
25 community solar vendors. Strict compliance with these and other electricity consumer-protective  
26 requirements would be a condition of contracts for participation in APS's community solar program  
27 with any material breaches being subject to prohibitions on program participation.

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Commission Reporting

15. APS states that as part of its community solar program, it will file community solar updates in its annual Renewable Energy Standard Implementation Plan, including:

- Number of community solar projects.
- Capacity of community solar projects.
- Number of community solar subscribers.
- Percent of total community solar subscribers that are LMI.
- Total cost to implement the program.
  - Annual amount of bill credits paid to subscribers.
  - Annual number of unsubscribed credits paid to projects.
- Average annual customer savings.
- Customer complaints.

Subscription Bill Credits

16. APS states that the Resource Comparison Proxy (“RCP”) values for solar Distributed Generation resources should be the starting point for community solar bill credits, which is \$0.054/KiloWatt Hour (“kWh”) (effective September 2022 – September 2023). APS proposes that the rate would be effective for 10 years following the initiation of a given community solar project, after which customers would receive, on an annual basis, the RCP export rate calculated each year thereafter of a given subscription term. After 10 years, the bill credit rate would be adjusted annually or “float” in accordance with the RCP export rate calculated annually thereafter.

Subscription Fees

17. Subject to Commission approval, APS proposes that the CS Charge (i.e., the subscription rate charged to CS Subscribers in order for them to receive CS Credits on their APS bill) be capped at 90 percent of the applicable CS Credit. For those CS Subscribers taking advantage of APS’s program, this would mean that participating customers could anticipate a 10 percent savings on their APS bill, depending on CS Project output and customer subscription quantity, among other factors. For example, by using the current RCP export rate of \$0.054/kWh for the CS Credit rate, a CS Project could charge no more than \$0.0486/kWh. From the standpoint of the CS

1 Project's owner, this CS Charge rate would be higher than what a small power production facility  
2 would receive under APS Rate Rider EPR-2.

3 Consolidated Billing

4 18. APS proposes to include the third-party CSSO's CS Charge on the corresponding  
5 subscriber's APS bill. APS proposes an initial two percent administrative fee on a monthly basis to  
6 the CSSO for consolidated billing. APS does not propose to collect unpaid balances, bill termination  
7 or cancellation fees, take credit action, or disconnect delivery service to a CS Subscriber in  
8 connection with its community solar program.

9 Renewable Energy Credits

10 19. APS states that it wishes to obtain all RECs from its CSP Plan in order to monetize  
11 and utilize them to help in funding the CSP Plan.

12 Annual CS Subscribing Organization Fee

13 20. APS proposes to assess a fee on CSSOs to recover any outstanding costs of  
14 implementing the CSP Plan. If any remaining costs exist after the other cost-recovery mechanisms  
15 have been employed, APS proposes to recover those remaining costs from customers via APS's  
16 existing Renewable Energy Standard compliance program.

17 21. APS states that costs of purchasing the power will not be recovered by the fee, and  
18 APS proposes recovery through the REAC as part of the overall community solar budget.

19 Community Solar Rate Rider

20 22. APS states that it intends to create a Community Solar Rate Rider under which CS  
21 Subscribers could take service. A subscriber who takes service under this rate rider would have the  
22 CS Credit in effect at the time of enrollment locked in for 10 years. APS proposes to update its  
23 Community Solar Rate Rider annually. APS states that customers who are currently enrolled in  
24 EPR-2, EPR-6 or RCP are not eligible to participate in the program.

25 *Additional CSP Plan Issues*

26 Securities Regulation

27 23. APS states that its community solar proposal mitigates securities regulation risks in  
28 several ways. First, the benefit is limited to offsetting a subscribing customer's total electricity bill



1 and extending no further to any other economic benefit. Second, subscriptions could not be treated  
2 by anyone as transferrable or fungible instruments. Third, the Commission has oversight through  
3 document and contractual review. Fourth, APS will clearly advise customers that no economic  
4 benefits other than the bill offsets are intended to be conveyed. Fifth, APS will advise customers  
5 that no residual property or other interest (of any type whatsoever) in their community solar project  
6 would be conveyed as part of the subscription. Sixth, APS will limit the size of the project to which  
7 a customer may subscribe based on the customer's historical average energy usage.

#### 8 Rate Case

9 24. APS believes that a rate case is unnecessary to implement its community solar  
10 proposal because its plan is revenue neutral. This is pursuant to the Arizona Court of Appeals case  
11 Scates v. ACC, which states that if a rate adjustment does not increase the overall revenue collected  
12 by the utility, then no fair value nor rate of return evaluations are necessary. APS states that even if  
13 a cost shift occurs, that itself is not an increase in revenue and therefore a rate case is unnecessary  
14 within the context of community solar.

#### 15 Cost Recovery

16 25. APS states that costs associated with community solar will need to be recovered and  
17 proposes the following to recover project costs:

- 18 • Projects must pay all costs to interconnect to the APS grid, including any training &  
19 development ("T&D") updates required for the project.
- 20 • A two percent fee on the remittance of community solar charges collected via  
21 consolidated billing. APS states it would request an increase or decrease in this fee  
22 to cover administrative costs associated with implementing its community solar  
23 program in its annual RES filing.
- 24 • RECs belong to APS which will use the revenue from sales to offset program costs.
- 25 • CSSO fee to recover any outstanding costs of implementing the APS Community  
26 Solar Program.
- 27 • Remaining costs would be recovered from customers via APS's existing RES  
28 compliance program.

- APS plans to recover the costs associated with the CS Credit from all customers, including non-participating customers through APS's existing RES compliance program and the REAC.

#### Avoided Costs

26. APS states that its avoided cost methodology is based on two overall components: (1) energy and capacity values for utility-scale solar resources; and (2) T&D grid values (composed of avoided T&D capacity costs plus line losses). With respect to energy and capacity values, APS employs a five-year weighted averaging of utility-scale solar prices otherwise available to determine this portion of the value. As to T&D grid values, APS states that it proposes to continue applying the two cents per kWh value established in Decision No. 76295.

#### Implementation Costs

27. APS has not yet developed cost estimates to address these administrative functions, APS anticipates developing those costs to the extent that the Commission decides to move forward with a community solar program.

#### Interconnection Costs

28. APS proposes that community solar projects pay all costs to interconnect to the APS grid. Regardless of whether APS or a third-party developer owns and operates a community solar resource, non-participating customers will not cover the costs of facility interconnection, including any necessary T&D updates required as a result of a given project.

#### Information and Technology Infrastructure and Billing Costs

29. APS proposes to organize the Information and Technology infrastructure and billing costs for a community solar program in two buckets: the first containing costs to enroll and correctly bill the CS Subscribers, and the second addressing the administration of the project, its generation, remittance of CS Charges to third party developers, and the payments for unsubscribed or unallocated output from a project.

30. APS states that it will need to develop an enrollment process to accept subscribers into the program, including the massive lists of subscribers who will be participating in the third-



1 party administered programs. APS will also have to update its billing system to attribute the correct  
2 bill credits to the subscribers' bills.

3 31. APS will need to incorporate the Community Solar project's monthly production into  
4 its billing system in a manner that allows APS to accurately allocate the kWh credits to the individual  
5 project's subscribers. If a project is not fully subscribed, APS states that it will need to track the  
6 subscribed production versus the unsubscribed production to properly credit the community solar  
7 project at the unsubscribed rate. Additionally, APS asserts it will need to develop a process to track  
8 and remit the community solar charges collected on behalf of the developers, less their participation  
9 fees.

10 Personnel & Support Costs

11 32. APS states that it will need to utilize personnel from various departments to support  
12 the implementation of a Community Solar Program, including running and reviewing an RFP,  
13 processing interconnection applications for the community solar projects, customer enrollment,  
14 support, and subscription maintenance. APS notes that unlike a rooftop solar customer who typically  
15 applies once and remains enrolled for the life of the system, community solar customers may change  
16 monthly. APS states that it currently costs \$3.2 million annually to process approximately 200 MW  
17 of rooftop solar interconnection applications, \$2.7 million of which is labor costs.

18 33. Stakeholders held Working Group meetings on June 9, June 23, July 14, August 4,  
19 August 30, and August 31, 2022. Comments addressing APS's CSP Plan were filed into the docket:

- 20 • Court S. Rich, Atty. (Filed September 30, 2022)  
21 <https://docket.images.azcc.gov/E000021407.pdf?i=1666909886500>
- 22 • Arizona Public Service Company (Filed October 7, 2022)  
23 <https://docket.images.azcc.gov/E000021592.pdf?i=1666909886500>
- 24 • Cypress Creek Renewables, et al. (Filed October 7, 2022)  
25 <https://docket.images.azcc.gov/E000021583.pdf?i=1666388679868>
- 26 • Residential Utility Consumer Office (Filed October 7, 2022)  
27 <https://docket.images.azcc.gov/E000021580.pdf?i=1666388679868>

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- 1 • Local First Arizona (Filed October 18, 2022)  
2 <https://docket.images.azcc.gov/E000021813.pdf?i=1666909886500>
- 3 • Tucson Electric Power Company and UNS Electric, Inc. (Filed October 21, 2022)  
4 <https://docket.images.azcc.gov/E000021879.pdf?i=1666909886500>
- 5 • Wildfire: Igniting Community Action to End Poverty in Arizona (Filed October 21,  
6 2022) <https://docket.images.azcc.gov/E000021865.pdf?i=1666909886500>

## 7 STAFF'S ANALYSES AND RECOMMENDATIONS

8 34. Based on Staff's review of APS's CSP Plan, and all the comments filed in the docket,  
9 in addition to public comments during the workshops, Staff believes that most of the issues cannot  
10 be resolved absent an evidentiary hearing.

11 35. Approval of this plan could have statewide implications. In addition, there is not a  
12 consensus among the Working Group as to structure, pricing, customer protections, and must take  
13 requirements. Further, several members of the Working Group have requested a hearing to establish  
14 a full record on these and others matters.

15 Issues that may need to be included are:

- 16 • Customer protection when it comes to disconnection during the summer moratorium  
17 (June 1 through October 15 of each year)
- 18 • Cost recovery whether a new surcharge is needed, or the Company will request for  
19 an increase in REAC
- 20 • Defer Payment Arrangement
- 21 • A value of credit to be issued to a subscriber
- 22 • Whether the Commission should approve the subscriber fees, rate, and subscriber  
23 credit
- 24 • Whether the Commission should address this in the context of a rate case due to fair  
25 value findings
- 26 • Consolidated billings
- 27 • Reporting requirements

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1           36.     Staff also believes that some of the issues listed below may be addressed without an  
2 evidentiary hearing.

- 3           •     Location of the Community Solar Program
- 4           •     Structure of the program
- 5           •     The percentage of carve out for low to moderate income customers
- 6           •     Whether the program should be included in an all-source Request for Proposal

7           37.     Staff also believes that an evidentiary hearing is necessitated in order to accord  
8 various parties their due process, since it may result in cost shift and subsidization, which may result  
9 in an upward rate adjustment for some customers and downward for other customers. In addition,  
10 some Stakeholders also believe some, if not all issues, need to be addressed in the context of a rate  
11 proceeding.

12           38.     Staff recommends that the Commission bifurcate the process by adopting a statewide  
13 policy to include:

- 14           •     Location of the Community Solar Program
- 15           •     Structure of the program
- 16           •     The percentage of carve out for low to moderate income customers
- 17           •     Whether the program should be included in an all-source Request for Proposal
- 18           •     Must take provision

19           39.     And refer the following items to the Hearing division for an evidentiary hearing:

- 20           •     Customer protection when it comes to disconnection during the summer moratorium
- 21           •     Cost recovery
- 22           •     Defer payment arrangement
- 23           •     Value of credit to be issued
- 24           •     Whether the Commission should approve the subscriber fees, rate, and credit
- 25           •     Whether the Commission needs to address this in the context of a rate case due to fair  
26 value findings
- 27           •     Consolidated billings
- 28           •     Implementation cost

40. Approval of this plan could have statewide implications. In addition, there is not a consensus among the Working Group as to structure, pricing, customer protections, and must take requirements. Further, several members of the Working Group have requested a hearing to establish a full record on these and others matters.

## CONCLUSIONS OF LAW

1. Arizona Public Service Company is a Public Service Corporation within the meaning of Article XV, Section 2, of the Arizona Constitution.

2. The Arizona Corporation Commission has jurisdiction over Arizona Public Service Company and the subject matter in the application.

3. The Arizona Corporation Commission, having reviewed Staff's Memorandum, concludes that it is in the public interest to hold an evidentiary hearing as discussed herein.

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ORDER

IT IS THEREFORE ORDERED that this matter is deferred to the Hearing Division so that a formal evidentiary hearing shall be held to consider the issues of substance related to Community Solar.

IT IS FURTHER ORDERED that Staff shall work with other stakeholders to develop a statewide policy including the items listed in Finding of Fact No. 38 to be heard no later than the January 2023 Open Meeting.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

**BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

CHAIRWOMAN MÁRQUEZ PETERSON



COMMISSIONER KENNEDY

**DISSENT**

COMMISSIONER OLSON



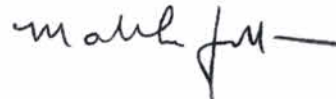
COMMISSIONER TOVAR

**DISSENT**

COMMISSIONER O'CONNOR



IN WITNESS WHEREOF, I, MATTHEW J. NEUBERT, Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this 22<sup>nd</sup> day of November, 2022.

MATTHEW J. NEUBERT  
EXECUTIVE DIRECTORDISSENT: DISSENT: 

EOA:CCN:jn/KMU